



Lottery Marketing & Incentive Pay:

Jackpot and Economy, Not Advertising or
Beneficiary Change, Appeared to Impact Ticket Sales

Preliminary Report

Joint Legislative Audit & Review Committee

January 11, 2012

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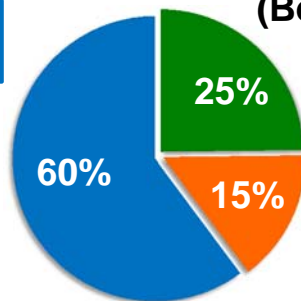
Lottery Generates \$500 Million from Ticket Sales Each Year



This revenue pays for:

Avg Annual Revenue
(FY 2007-11): \$500 M

Prizes
\$301 M



**State Programs
(Beneficiaries)**
\$124 M

**Admin &
Operating**
\$75 M

E2SSB 6409 (2010) changed the primary
beneficiary and initiated a JLARC study.

Source: JLARC analysis of Lottery data.

Study Addresses Three Questions



1. To what extent has **advertising** impacted lottery ticket sales?
2. To what extent has the **change in beneficiaries** impacted lottery ticket sales?
3. What is Lottery's employee **incentive payment program**, and how do other state lotteries compare?

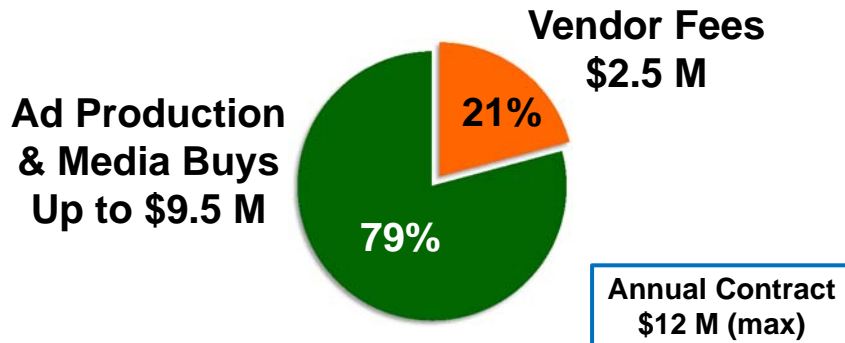
1

To What Extent Has Advertising Impacted Lottery Ticket Sales?

Advertising Expenditures Did Not Appear to Increase Weekly Ticket Sales in the 2009-11 Biennium.



Lottery Has \$12 Million Annual Advertising Contract with Vendor



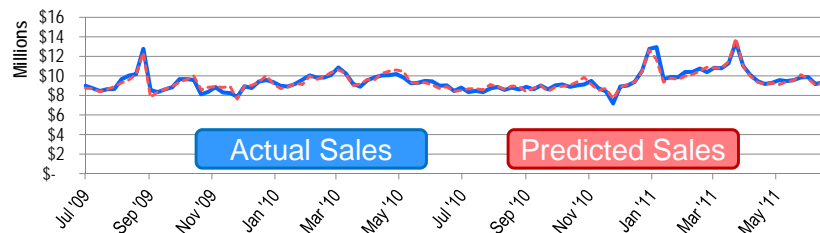
Lottery secured this contract following applicable statutes and OFM policies.

Source: JLARC analysis of Lottery data.

Advertising Expenditures Did Not Appear to Increase Ticket Sales



- Statistical analysis of 2009-11 advertising data showed jackpot amount and economic conditions were highly predictive of sales.



- Advertising expenditures had no apparent relationship to weekly ticket sales.

Source: JLARC analysis of Lottery data.

Further Analysis Needed to Understand Why There Was No Impact



- This analysis measured impact of advertising expenditures on weekly ticket sales.
- Does not identify **why** there was no relationship between advertising and sales.
For example: Too much advertising? Too little? Ineffective content? Unresponsive public?
- Further analysis and controlled experiments would be necessary to identify next steps.

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To What Extent Has the Change in Beneficiaries Impacted Lottery Ticket Sales?

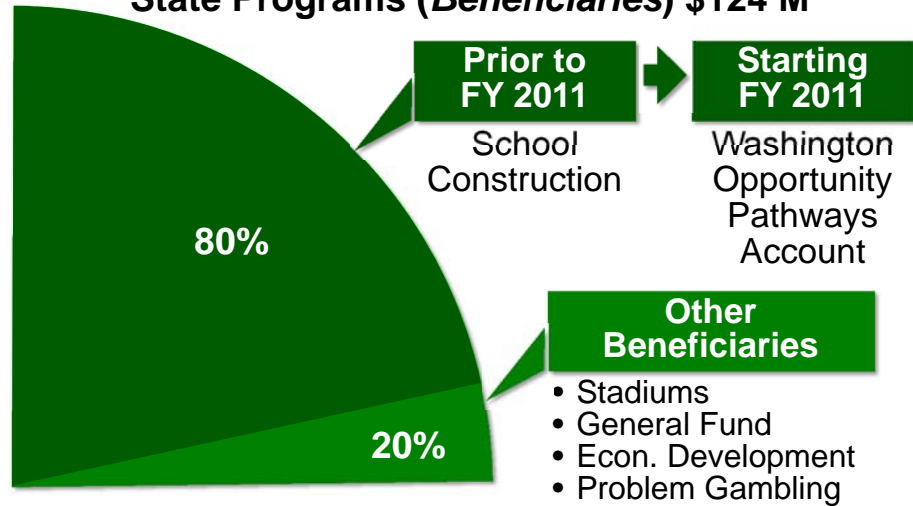


Beneficiary Change Did Not Appear to Increase Ticket Sales in FY 2011.

Legislature Changed Primary Beneficiary of Lottery Revenue



State Programs (*Beneficiaries*) \$124 M



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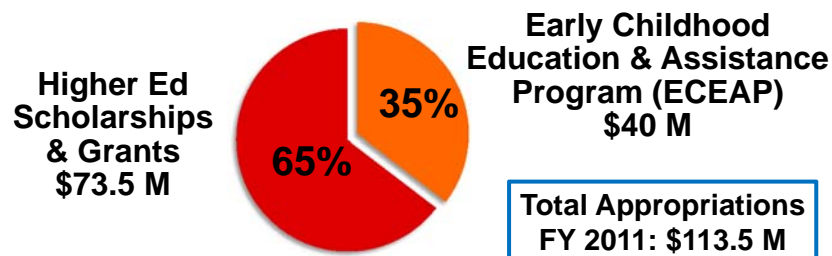
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New Beneficiary Funds Higher Ed Scholarships and Early Learning



- Washington Opportunity Pathways Account (WOPA) provided funding in FY 2011 for:



- Fiscal note predicted that this beneficiary change would increase Lottery ticket sales by \$31 million in FY 2011.

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Beneficiary Change Did Not Appear to Increase Ticket Sales



- Sales increased by over \$19 million in FY 2011 compared to the prior year.
- However, this increase is consistent with JLARC's prediction of what sales would have been without the beneficiary change.
- Statistical analysis showed no relationship between ad campaign about new beneficiary and ticket sales.

3

What Is Lottery's Employee Incentive Payment Program, and How Do Other State Lotteries Compare?



Limited Program for Sales Staff That Is Similar to Other States.

Current Incentive Pay Program Is Limited to 35 Sales Reps



In FY 2011, awards:

- Based on exceeding ticket sale goals
- Totaled \$233,000
- Averaged \$6,300 per sales rep

In past, Lottery offered other types of monetary awards, but Legislature has suspended other awards until June 2013

Incentive Pay	Adds
High \$10,700	25%
Avg \$6,300	15%
Low \$2,500	6%

Average Salary

\$42,400

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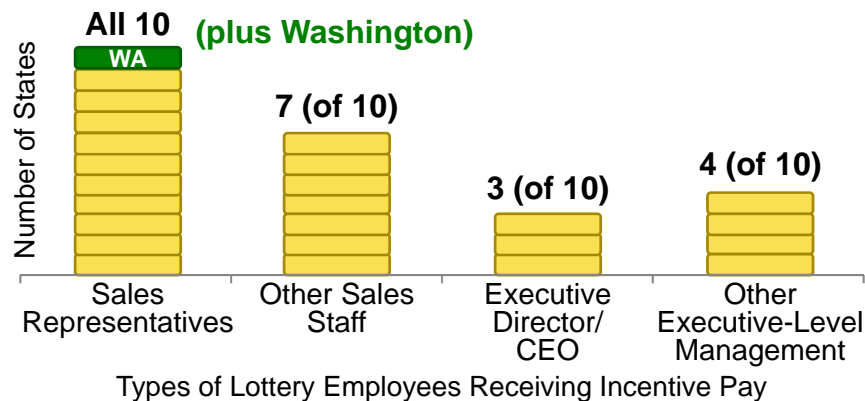
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In Other States, Incentive Pay Is Most Commonly Awarded to Sales Reps



Ten of the 43 state lotteries answered JLARC's questions about incentive pay:



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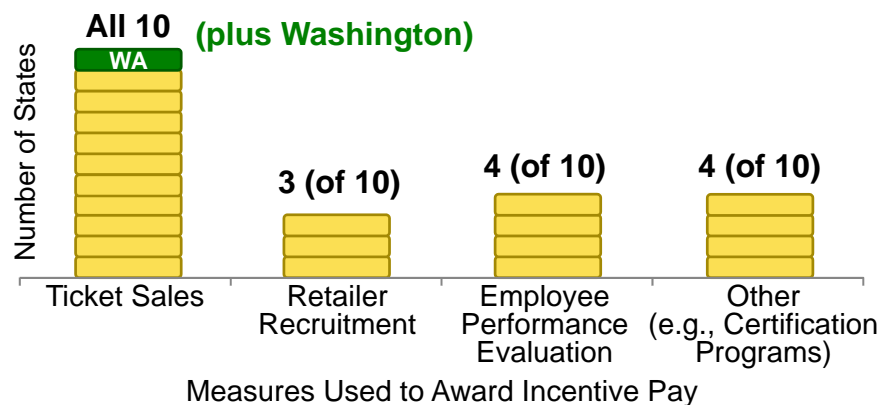
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In Other States, the Primary Measure for Incentive Pay Is Ticket Sales



Ten of the 43 state lotteries answered JLARC's questions about incentive pay:



Source: JLARC survey of other states.

Study Answers Three Questions



1. To what extent has advertising impacted lottery ticket sales?

Did not appear to impact weekly sales.

2. To what extent has the change in beneficiaries impacted lottery ticket sales?

Did not appear to impact sales.

3. What is Lottery's employee incentive payment program, and how do other state lotteries compare?

Limited program and similar to other states.

Recommendation for Further Analysis to Improve Ad Effectiveness



Our analysis does not identify **why** there was no relationship between advertising and weekly sales; further analysis and controlled experiments would be necessary.

Recommendation:

Washington's Lottery should report to the Lottery Commission with a plan on how to evaluate and improve the effectiveness of its advertising budget in generating ticket sales.

Next Steps and Contact Information



Proposed Final Report: April 2012

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